

**FISCAL NOTE**  
**LEGISLATIVE FISCAL ANALYST ESTIMATE**

<b>ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates)</b>				
	<b>FY 2020-21</b>		<b>FY 2021-22</b>	
	<b>EXPENDITURES</b>	<b>REVENUE</b>	<b>EXPENDITURES</b>	<b>REVENUE</b>
GENERAL FUNDS	\$685,752	(\$4,231,000)	\$501,973	(\$4,654,000)
CASH FUNDS		See below		See below
FEDERAL FUNDS				
OTHER FUNDS				
<b>TOTAL FUNDS</b>	<b>\$685,752</b>	<b>(\$4,231,000)</b>	<b>\$501,973</b>	<b>(\$4,654,000)</b>

**Any Fiscal Notes received from state agencies and political subdivisions are attached following the Legislative Fiscal Analyst Estimate.**

LB 1179 adopts the ImagiNE Small Business and Urban Revitalization Act. The act provides for refundable tax credits for taxpayers with approved applications, engaged in a qualified business, who:

- Increase employment by 5 new employees and investment of at least \$250,000 prior to the end of the first year in a blighted area in a metropolitan class of primary class city; and pays a minimum qualifying wage of \$14/hour to the new employees; or
- Increase investment by \$50,000 prior to the end of the first year in a blighted area in a first class or second class city or village.

For taxpayers in metropolitan and primary class cities, the credit is \$3,000 per new employee and \$2,750 for each \$50,000 of increased investment. For taxpayers in cities of the first or second class or villages, the credit is 10% of the investment, not to exceed \$150,000. The credit can be used to obtain a refund of state sales and use tax, against income tax liability, or as a refund credit on an income tax return of the taxpayer. Taxpayers must apply to the Department of Economic Development (DED), and once approved, enter into a written agreement with the director of DED. The director must not approve more than \$5,000,000 in credits in each year. The \$500 application fee is remitted to the Nebraska Incentives Fund.

The bill provides for repayment of credits if employment and investment levels are not maintained and for transfer of credits in certain situations. LB 1179 includes reporting requirements for DED, beginning July 15, 2021, and DED must present at a joint hearing of the Appropriations and Revenue Committees on or before September 1, 2021, and each year thereafter.

Applications are allowed under the act until December 31, 2028.

**Revenue:**

The Department of Revenue estimates revenue to the General Fund as follows:

FY20-21	(\$4,231,000)
FY21-22	(\$4,654,000)
FY22-23	(\$4,887,000)
FY23-24	(\$5,000,000)
FY24-25	(\$5,000,000)

Revenue to the Nebraska Incentives Fund from application fees in indeterminate.

**Expenditures:**

The Department of Revenue estimates a one-time cost to OCIO for mainframe and web development changes of \$105,368, and ongoing costs for 0.5 FTE Revenue Auditor I, for total costs of \$140,368 in FY 20-21 and \$29,400 in FY 21-22.

The Department of Labor estimates administrative costs to assist with auditing, totaling \$8,654 in FY 20-21 and \$8,853 in FY 21-22.

DED estimates additional costs for a one-time charge of \$50,000 for software, operating expenses, and new staff, including 1.0 FTE Attorney III, 0.5 FTE Audit Senior in FY 20-21 and increasing to 1.0 FTE in FY 21-22, 1.0 FTE Economic Development Manager, and 1.0 FTE Economic Development Business Consultant. Total costs are \$536,730 in FY 20-21 and \$463,720 in FY 21-22.

There is no basis to disagree with these estimates.

ADMINISTRATIVE SERVICES STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSE		
LB: 1179	AM:	AGENCY/POLT. SUB: Department of Revenue
REVIEWED BY: Neil Sullivan	DATE: 2/14/2020	PHONE: (402) 471-4179
COMMENTS: No basis to disagree with the Department of Revenue assessment of fiscal impact from LB 1179.		

ADMINISTRATIVE SERVICES STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSE		
LB: 1179	AM:	AGENCY/POLT. SUB: Department of Labor
REVIEWED BY: Neil Sullivan	DATE: 2/4/2020	PHONE: (402) 471-4179
COMMENTS: The Department of Labor assessment of fiscal impact from LB 1179 appears reasonable.		

**State Agency Estimate**

State Agency Name: Department of Revenue				Date Due LFA:				
Approved by: Tony Fulton				Date Prepared:				
				Phone: 471-5896				
	<b>FY 2020-2021</b>			<b>FY 2021-2022</b>			<b>FY 2022-2023</b>	
	<u>Expenditures</u>	<u>Revenue</u>		<u>Expenditures</u>	<u>Revenue</u>		<u>Expenditures</u>	<u>Revenue</u>
General Funds	\$140,368	(\$4,231,000)		\$29,400	(\$4,654,000)		\$30,100	(\$4,887,000)
Cash Funds								
Federal Funds								
Other Funds								
Total Funds	\$140,368	(\$4,231,000)		\$29,400	(\$4,654,000)		\$30,100	(\$4,887,000)

LB 1179 adopts the Imagine Small Business and Urban Revitalization Act. The act provides a refundable credit to taxpayers that increase employment and investment in a blighted area as part of a qualified business. To participate in this program, taxpayers must apply with the Department of Economic Development. Applications for this program are accepted until December 31, 2028. Applicants submit a \$500 application fee which is remitted to the State Treasurer for credit to the Nebraska Incentives fund.

Taxpayers engaged in a qualified business in a blighted area within a city of the metropolitan class or city or the primary class may earn credits if they increase employment by at least five equivalent employees who are paid at least \$14 per hour and invest \$250,000 by the end of the first taxable year after the year of application. These taxpayers may earn a credit of \$3,000 for each new equivalent employee and a credit of \$2,075 for each \$50,000 of increased investment.

Taxpayers engaged in a qualified business in a blighted area within a city of the first class, city of the second class, or village may earn credits if they increase investment by \$50,000 by the end of the first taxable year after the year of application. These taxpayers may earn a credit equal to 10% of their new investment not to exceed \$150,000.

For each calendar year, the director cannot approve applications for expected credits of more than five million dollars.

Qualified business means any business engaged in (a) storage, warehousing, distribution, transportation, or sale of tangible personal property; (b) research and development; (c) data processing services, telecommunication services, insurance services, or financial services; (d) assembly, fabrication, manufacture, or processing of tangible personal property; or e) administration management.

Credits may be used to obtain a refund of sales or use taxes paid, against income tax liability, or as a refundable credit claimed on the income tax return. Credits will be recaptured if the taxpayer does not meet at least 75% of the jobs or investment levels stated in the agreement. Credits are recaptured if the taxpayer does not maintain increases for three years following the year they met levels.

The Department of Economic Development must prepare a report of program activity on or before July 15, 2021 and each following year.

The estimated reduction in General Fund revenues would be as follows:

FY20-21	\$ 4,231,000
FY21-22	\$ 4,654,000
FY22-23	\$ 4,887,000
FY23-24	\$ 5,000,000
FY24-25	\$ 5,000,000

LB 1179 would require a one-time programming charge of \$105,468 paid to the OCIO for mainframe and web development costs.

**Major Objects of Expenditure**

<u>Class Code</u>	<u>Classification Title</u>	<u>20-21 FTE</u>	<u>21-22 FTE</u>	<u>22-23 FTE</u>	<u>20-21 Expenditures</u>	<u>21-22 Expenditures</u>	<u>22-23 Expenditures</u>
A21251	Revenue Auditor I	0.5	0.5	0.5	\$22,500	\$22,100	\$22,600
	Benefits.....				\$7,400	\$7,300	\$7,500
	Operating Costs.....				\$105,468		
	Travel.....						
	Capital Outlay.....				\$5,000	\$0	\$0
	Capital Improvements.....						
	<b>Total.....</b>				\$140,368	\$29,400	\$30,100

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**2020**

**LB<sup>(1)</sup> 1179**

**FISCAL NOTE**

State Agency OR Political Subdivision Name: <sup>(2)</sup> Nebraska Department of Labor

Prepared by: <sup>(3)</sup> Katie Thurber Date Prepared: <sup>(4)</sup> 1-30-2020 Phone: <sup>(5)</sup> 402-471-9912

**ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION**

	<u>FY 2020-21</u>		<u>FY 2021-22</u>	
	<u>EXPENDITURES</u>	<u>REVENUE</u>	<u>EXPENDITURES</u>	<u>REVENUE</u>
GENERAL FUNDS	<u>\$8,654</u>	<u>                    </u>	<u>\$8,853</u>	<u>                    </u>
CASH FUNDS	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
FEDERAL FUNDS	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
OTHER FUNDS	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>TOTAL FUNDS</b>	<u><b>\$8,654</b></u>	<u>                    </u>	<u><b>\$8,853</b></u>	<u>                    </u>

Explanation of Estimate: LB 1179 creates the Imagine Small Business and Urban Revitalization Impact program. With similar programs, the Nebraska Department of Labor has needed to assist during audit years. The time spent during this has ranged from 40 hours to 500 hours dependent on the program. The Nebraska Department of Labor is estimating 200 hours per audit year for Total Salaries of \$5,538 in Year One and \$5,666 in Year Two.

These costs would need to be covered by either NDOL or the Agency making the request of NDOL. NDOL does not currently receive General Funds for the Division of Employment within Program 031.

**BREAKDOWN BY MAJOR OBJECTS OF EXPENDITURE**

**Personal Services:**

<u>POSITION TITLE</u>	<u>NUMBER OF POSITIONS</u>		<u>2020-21</u>	<u>2021-22</u>
	<u>20-21</u>	<u>21-22</u>	<u>EXPENDITURES</u>	<u>EXPENDITURES</u>
RESEARCH ANALYST I	<u>.06</u>	<u>.06</u>	<u>2,682</u>	<u>2,744</u>
RESEARCH ANALYST II	<u>.04</u>	<u>.04</u>	<u>2,042</u>	<u>2,089</u>
RESEARCH SUPERVISOR	<u>.01</u>	<u>.01</u>	<u>814</u>	<u>833</u>
Total Salaries.....	<u>.11</u>	<u>.11</u>	<u>5,538</u>	<u>5,666</u>
Benefits.....			<u>2,077</u>	<u>2,125</u>
Operating.....			<u>1,039</u>	<u>1,062</u>
Travel.....			<u>                    </u>	<u>                    </u>
Capital outlay.....			<u>                    </u>	<u>                    </u>
Aid.....			<u>                    </u>	<u>                    </u>
Capital improvements.....			<u>                    </u>	<u>                    </u>
<b>TOTAL.....</b>			<u><b>8,654</b></u>	<u><b>8,853</b></u>

Please complete ALL (5) blanks in the first three lines.

**2020**

**LB<sup>(1)</sup> 1179**

**FISCAL NOTE**

State Agency OR Political Subdivision Name: <sup>(2)</sup> Nebraska Department of Economic Development

Prepared by: <sup>(3)</sup> Anthony Goins Date Prepared: <sup>(4)</sup> 2/12/2020 Phone: <sup>(5)</sup> 402-471-3777

**ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION**

	<u>FY 2020-21</u>		<u>FY 2021-22</u>	
	<u>EXPENDITURES</u>	<u>REVENUE</u>	<u>EXPENDITURES</u>	<u>REVENUE</u>
GENERAL FUNDS	<u>\$536,730</u>	<u>\$0</u>	<u>\$463,720</u>	<u>(\$5,000,000)</u>
CASH FUNDS	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
FEDERAL FUNDS	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
OTHER FUNDS	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>TOTAL FUNDS</b>	<u><u>\$536,730</u></u>	<u><u>\$0</u></u>	<u><u>\$463,720</u></u>	<u><u>(\$5,000,000)</u></u>

**Explanation of Estimate:**

LB1179 would create the ImagiNE Small Business and Urban Revitalization Act, administered by the Nebraska Department of Economic Development (DED). The act provides qualifying businesses operating in blighted areas with refundable tax credits for increasing employment and investment. Qualifying activities are similar to those in the Nebraska Advantage Act.

Taxpayers with businesses located in blighted areas within cities of the Metropolitan and Primary classes may earn tax credits if they increase employment by at least five FTE, and invest at least \$250,000 by the end of the first tax year after application. In order to count toward the employment threshold, the new employees must be paid a minimum of \$14 per hour. Qualified taxpayers in these areas may earn \$3,000 in tax credits for each new FTE, and a \$2,750 credit for each \$50,000 in new investment. Taxpayers located in blighted areas within Villages or cities of the First or Second Class, who invest between \$50,000 and \$1,500,000, may earn a 10% tax credit on new investment.

Businesses apply to the DED director for the ImagiNE Small Business and Urban Revitalization Act between November 1 and December 1 each year. To be considered for credits, applications must be complete by December 1. If the application is approved, a written agreement between the taxpayer and the DED director will be prepared and signed, until the total amount of refundable tax credits approved reaches \$5 million in the calendar year. Applications are to be considered on a first come first served basis, and applications that qualify for the program, but are not completed by December 1, are to be considered as filed for the next year. There is a \$500 application fee to be credited to the Nebraska Incentives Fund—administered by the Department of Revenue—of this fee, \$400 is to be refunded if the application is not approved because the \$5 million cap was reached. Credits used by a taxpayer cannot be greater than the amount approved by the director and specified in the agreement.

Tax credits earned may be used as a refundable tax credit against income taxes, or to obtain a refund of sales and use taxes paid. LB1179 contains a recapture provision if the levels of jobs or investment are not maintained for three years after the year when levels were met. If the taxpayer meets at least 75% of the jobs or investment levels stated in the agreement, there is no recapture.

DED would also be required to prepare an annual report on the ImagiNE Small Business and Urban Revitalization Act, beginning on July 15, 2021. The report includes total investment in blighted areas by calendar year by participating taxpayers, the number of new FTEs, total credits claimed, and project-specific information on a two-year cycle. DED is also required to appear before a joint hearing of the Appropriations and Revenue Committees before September 1 of each year.

As drafted, the administration of LB1179 will require DED to add a number of staff positions. These include an Attorney III, to aid in determining qualified activities, under the complicated Nebraska Advantage activities and write agreements; an audit senior, beginning full time in 2021; an Economic Development Manager; and an Economic Development Business Consultant. In addition, operating expenses in FY2020-21 include a one-time charge of \$50,000 for software for tracking applications, agreements, and tax credits earned.

LB1179, as drafted, does not appear to allow DED to exchange taxpayer information about credits earned with the Department of Revenue. It is unclear which agency is responsible for auditing taxpayers for compliance and recapture.

This note assumes that this responsibility will be in DED. There is no provision for prorating credits among taxpayers if, accepted applications exceed \$5 million in requests on November 1.

**BREAKDOWN BY MAJOR OBJECTS OF EXPENDITURE**

**Personal Services:**

<u>POSITION TITLE</u>	<u>NUMBER OF POSITIONS</u>		<u>2020-21</u>	<u>2021-22</u>
	<u>20-21</u>	<u>21-22</u>	<u>EXPENDITURES</u>	<u>EXPENDITURES</u>
Econ. Development Manager	1.0	1.0	\$66,210	\$67,860
Attorney III	1.0	1.0	85,790	87,940
Audit Senior	0.5	1.0	29,910	61,320
Econ. Dev. Business Consultant	1.0	1.0	59,450	60,910
Benefits.....			96,540	111,210
Operating.....			98,300	55,600
Travel...(includes a vehicle).....			66,130	18,880
Capital outlay.....			34,400	0
Aid.....				
Capital improvements.....				
<b>TOTAL.....</b>			<b>\$536,730</b>	<b>\$463,720</b>